



United Kingdom  
Debt Management  
Office

**Commissioners for the Reduction of the National Debt**

# **National Insurance Fund Investment Account**

**Report and Accounts for the year ended 31 March 2017**

Presented to Parliament pursuant to Section 161(4) of the Social Security Administration Act 1992

**18 July 2017**

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## **PERFORMANCE REPORT**

### **Overview**

The purpose of the overview is to provide sufficient information to understand the National Insurance Fund Investment Account (NIFIA), its purpose, the key risks to the achievement of its objectives and how it has performed during the year. These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND) under a direction issued by HM Treasury in accordance with section 161(4) of the Social Security Administration Act 1992 (the Act).

Section 161(4) of the Act requires the National Debt Commissioners to present to Parliament annually an account of the securities in which money in the National Insurance Fund (NIF) is for the time being invested.

### **Purpose and principal activities of the National Insurance Fund Investment Account**

Section 161(3) of the Act established that any money held in the NIF may, from time to time, be paid over to CRND for investment in accordance with such directions as may be given by HM Treasury. The NIFIA is used to hold monies paid over and invested in this way.

Section 2 of the Social Security Act 1993 provides for sums not exceeding  $\frac{1}{6}$ <sup>th</sup> of the estimated benefit expenditure in any tax year be provided by Parliament and paid by HM Treasury from the Consolidated Fund into the NIF (a "Treasury Grant"). The payment of a Treasury Grant is based on whether the balance of the NIF is expected to fall below  $\frac{1}{6}$ <sup>th</sup> of estimated annual benefit expenditure, as recommended by the Government Actuary. During the year, Treasury Grants from the Consolidated Fund to the NIF were nil (2015-2016: £9,600 million).

HM Treasury has directed that CRND's investments in respect of the NIFIA shall be confined to those securities specified in paragraphs 1, 2, 3, 8, 9 and 9A of Part II of Schedule 1 to the Trustee Investments Act 1961.

The resources used to deliver CRND's objectives are accounted for within the United Kingdom Debt Management Office's (DMO) agency vote and reported in the DMO Annual Report and Accounts 2016-2017. The CRND's cost of managing the NIFIA is recharged to Her Majesty's Revenue & Customs (HMRC); in 2016-2017, this was £73,000 (2015-2016: £73,000). The National Audit Office's fee for audit of the NIFIA in 2016-2017 was £7,080 (2015-2016: £7,080). The audit fee cost is charged to CRND and is recovered from HMRC as a component of the charge made by CRND for management of the NIFIA. Both the cost and the corresponding income are reported within the DMO Annual Report and Accounts 2016-2017. There was no auditor remuneration for non-audit work.

### **Commissioners for the Reduction of the National Debt**

CRND's main function is the investment and management of major government funds. The investment powers differ from fund to fund.

There are eight Commissioners, but the Secretary and Comptroller General and Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions. There is no legislation that determines the specific responsibilities of the Secretary and Comptroller General and the Assistant Comptroller. However, in practice the role of the Secretary and Comptroller General is considered analogous to acting as the Accounting Officer for CRND. Therefore, the Secretary and Comptroller General takes responsibility for preparing and signing the accounts on behalf of the Commissioners.

The arrangements made between CRND and HMRC in respect of the investment service provided by CRND are set out in a Memorandum of Understanding, which describes how CRND intend to achieve the agreed investment objectives.

### **Performance summary**

CRND's strategy of investing in the Debt Management Account was maintained throughout 2016-2017. This strategy enabled the NIFIA to earn a rate of interest very closely correlated with prevailing short-term sterling interest rates, whilst protecting its capital position and access to liquidity at all times.

### **Performance analysis**

During the year, the NIFIA generated a total comprehensive income of £76 million (2015-2016: £88 million). The reduction in income was primarily due to the fall in interest rates on the NIFIA's investments with the Debt Management Account, which corresponded to the fall in the official Bank Rate from 0.5% to 0.25% on 4 August 2016.

As at 31 March 2017, the total value of investments held by the NIFIA had decreased to £23,956 million (31 March 2016: £24,590 million). This decrease was due to a net withdrawal of funds by the NIF during the year.

**Jo Whelan**

Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt  
29 June 2017

## **ACCOUNTABILITY REPORT**

The accountability report comprises two sections: a corporate governance report and a parliamentary accountability and audit report. The corporate governance report includes the following information: the responsibilities of the Secretary and Comptroller General; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Secretary and Comptroller General and enabled the objectives of the NIFIA; the key risks faced by the NIFIA and how it seeks to manage them. The parliamentary accountability and audit report includes a formal opinion by the NIFIA's external auditor to certify that the financial statements give a true and fair view of the state of the NIFIA's affairs for the year and that they have been prepared in accordance with all relevant rules.

These two sections contribute to the NIFIA's accountability to parliament and comply with best practice in relation to corporate governance norms and codes. In particular, the corporate governance report seeks to do so by describing the key mechanisms the NIFIA employs to ensure it maintains high standards of conduct and performance. This includes the statement of Secretary and Comptroller General's responsibilities which describes her accountability to Parliament for the NIFIA's use of resources and compliance with rules set by HM Treasury to ensure best practice in financial management. The governance statement reflects the applicable principles of the Corporate Governance Code for Central Government Departments. The parliamentary accountability and audit report confirms that expenditure and income of the NIFIA have been applied to the purposes intended by Parliament and confirms that information in the parliamentary accountability disclosures has been audited and approved by external auditors.

### **Corporate governance report**

#### **Directors' report**

Operationally, the CRND is part of the DMO and its staff are employees of the DMO. The CRND therefore has no staff of its own. The structure of the CRND is described on page 4.

#### **Directors' conflicts of interest**

In 2016-2017, no material conflicts of interest were declared by DMO Managing Board members.

#### **Reporting of personal data related incidents**

The NIFIA had no protected personal data related incidents during 2016-2017.

#### **Jo Whelan**

Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt

29 June 2017

## **Statement of Secretary and Comptroller General's responsibilities**

Section 161(4) of the Act requires the Commissioners to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the NIFIA, its income and expenditure, changes in client funds and cash flows for the financial year.

The Commissioners have appointed the Secretary and Comptroller General to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary and Comptroller General has responsibility for preparing the annual accounts.

In preparing the accounts, the Secretary and Comptroller General is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual (FRoM), and in particular to:

- observe the relevant accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the annual report and accounts as a whole are fair, balanced and understandable, and take responsibility for the judgements required for determining they are fair, balanced and understandable;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

As the role of the Secretary and Comptroller General is analogous to acting as an Accounting Officer, it is considered that the responsibilities of an Accounting Officer, as set out in Managing Public Money published by HM Treasury, apply to the Secretary and Comptroller General. These include responsibility for the propriety and regularity of the public finances for which the Secretary and Comptroller General is answerable, for keeping proper records, and for safeguarding the NIFIA's assets.

### **Audit arrangements**

The NIFIA is audited by agreement with the Comptroller and Auditor General. The Comptroller and Auditor General audits these accounts and provides opinions to CRND on whether the financial statements provide a true and fair view in accordance with the Social Security Administration Act 1992.

The Secretary and Comptroller General confirms that, as far as she is aware, there is no relevant audit information of which the NIFIA's auditors are unaware, and that she has taken all the steps that she ought to have taken as Secretary and Comptroller General in order to make herself aware of any relevant audit information and to establish that the NIFIA's auditors are aware of that information.

## **Governance statement**

### **Scope of responsibility**

As Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt (CRND), I am responsible for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the governance statement for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

It is also my responsibility to ensure that all CRND fund management activities are conducted with due regard to value for money and operated in line with client instructions. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations.

CRND is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the following principles laid down in that Code:

- Parliamentary accountability;
- The role of the Board;
- Board composition;
- Board effectiveness; and
- Risk management.

CRND does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

### **Managing Board**

The Secretary and Comptroller General was supported during 2016-2017 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Sir Robert Stheeman

DMO Chief Executive and Accounting Officer

Jim Juffs

Chief Operating Officer

Jessica Pulay

Co-Head of Policy and Markets

James Richardson (resigned 31 March 2016)

Non-executive HM Treasury representative



Richard Hughes (appointed 1 August 2016)

Non-executive HM Treasury representative

Brian Larkman (resigned 31 December 2016)

Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

Brian Duffin

Non-executive director – Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

Paul Fisher (appointed 1 December 2016)

Non-executive director - During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association.

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

One of the roles of the Board is to advise the Secretary and Comptroller General on any key decisions affecting CRND.

An executive sub-committee of the Board generally meets weekly and supports the Secretary and Comptroller General on operational decisions.

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in 2015 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference underwent a review by the Board in 2017.

## 2016-2017 Managing Board activities

Board meetings were held throughout 2016-2017 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board and Audit Committee attendance is outlined in the table below:

<b>Managing Board</b>		<b>Audit Committee</b>		
	Possible	Actual		
Sir Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	7*		
Richard Hughes	5	3	Possible	Actual
Brian Larkman	6	4	3	0**
Brian Duffin	8	7	4	4
Paul Fisher	3	3	1	0
Caroline Mawhood	n/a	n/a	4	4

(\* ) Absence owing to travel on UK DMO business

(\*\* ) Not present, comments received

## **Audit Committee**

The Secretary and Comptroller General was supported during 2016-2017 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2016-2017 were:

Brian Duffin (Chairman)

Brian Larkman (resigned 31 December 2016)

Paul Fisher (appointed 1 December 2016)

Caroline Mawhood – Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-2009. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change (until June 2016) and the Corporation of London and one of two external members of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breast Cancer Now charity (until September 2016) and a trustee of the Wimbledon Guild charity.

Audit Committee meetings are typically attended by the DMO Accounting Officer, the Secretary and Comptroller General, the Co-Heads of Policy & Markets, the Chief Operating Officer, the Head of Internal Audit and the National Audit Office.

One of the Audit Committee's objectives is to give advice to the Secretary and Comptroller General on:

- The overall processes for risk, control and governance and the Governance Statement;
- Management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- The financial control framework and supporting compliance culture;
- Accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- Whistle-blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- Processes to protect against money laundering, fraud and corruption; and
- The planned activity and results of both internal and external audit.

During the period under review the Audit Committee paid particular attention to the following areas:

- Business continuity management;
- Operational risk management;
- IT access controls;
- Staff development and retention;
- IT resilience, recovery and security environment;
- Trading system interface control;
- Effectiveness of whistleblowing arrangements;
- Anti-money laundering arrangements.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Secretary and Comptroller General has also been informed by the following operational committees throughout the period under review:

*Fund Management Review Committee*

The Fund Management Review Committee monitors CRND activity relating to the performance of the government funds under management, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2016-2017.

*Business Delivery Committee*

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2016-2017.

*Risk Committees*

The Secretary and Comptroller General is informed by three risk committees covering credit and market risk, operational risk and risk control. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

**Risk management and internal control**

The Secretary and Comptroller General is responsible for maintaining a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which she is accountable, in accordance with the responsibilities assigned to her.

CRND is managed within the wider DMO system of internal control which is based upon what the DMO Accounting Officer, with the support of the Board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO's position differs to that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

**The Risk and Control Framework**

The Board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the DMO Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

***First line of defence:***

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are

encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses so that these may be assessed and appropriate mitigating actions put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

***Second line of defence:***

Oversight of risk is provided by the Board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the DMO Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit risk, market risk and operational risk. It has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

*Credit and Market Risk Committee*

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. It monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. The CMRC met eleven times during 2016-2017.

*Operational Risk Committee*

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. The Committee also reviews and tracks the progress of actions identified by Internal Audit. The Committee's scope includes issues relating to information risk, IT security, business continuity, anti-fraud and key supplier risks.

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on transaction processing risks and controls, IT and data security and business continuity planning. The ORC met nine times during 2016-2017.

*Controls Group*

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the DMO Accounting Officer, the Board and senior management on any significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered the DMO's core trading system, project work to strengthen changes to the control environment, enhancements to transaction processes and improvements in IT change management processes.

*Risk Management Unit*

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the DMO Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the Board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from, and independent of, the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

***Third line of defence:***

The DMO's Internal Audit function provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of findings relating to control weaknesses. Remedial actions once agreed with management, are monitored for implementation. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

**Risk policies and procedures**

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2016-2017, this included the DMO's Anti-Fraud Policy, the Data Protection Policy and Whistleblowing Policy.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle blowing, fraud and anti-money laundering. The DMO ensures that this exercise is undertaken on an annual basis allowing staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

## Risk profile

The Secretary and Comptroller General and the DMO Board believe that the principal risks and uncertainties facing CRND are outlined in the table below together with the key actions taken to manage and mitigate them:

### Principal risks and uncertainties

### Mitigation and management

#### IT systems and infrastructure

CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.

A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.

During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements including those of CRND and is working to enhance and improve transaction processing systems. These improvements include the technology contingency processes and the ease of operating from alternative sites. The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.

To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements.

#### Transaction processing

CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdown and human error.

A key component of CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities.

All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.

The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board.

DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.

#### People risk

The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.

The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives.

The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial

The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.

services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.

The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.

Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. During the year particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff.

On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board.

The DMO is accredited as an Investor in People.

#### **IT and data security**

Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management.

The DMO is exposed to risk of an external attack on its IT systems and infrastructure.

The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. IT and data security risks continued to be a specific area of focus in 2016-2017 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risk.

The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test.

#### **Review of effectiveness**

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2016-2017. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO, who have been delegated

responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In my role as Secretary and Comptroller General I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2016-2017, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

In my opinion, CRND's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

**Jo Whelan**

Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt

29 June 2017



## **Parliamentary accountability and audit report**

### **Regularity of expenditure**

The investments, income and expenditure of the NIFIA were applied to the purposes intended by Parliament.

The above statement has been audited.

### **Fees and charges**

The NIFIA received no fees or charges during the year.

The above statement has been audited.

## **INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS FOR THE REDUCTION OF THE NATIONAL DEBT**

I have audited the financial statements of the National Insurance Fund Investment Account for the year ended 31 March 2017. The financial statements comprise: the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds and the related notes. These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury in accordance with Section 161(4) of the Social Security Administration Act 1992 and under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

### **Respective responsibilities of the Commissioners for the Reduction of the National Debt, the Secretary and Comptroller General and the Auditor**

As explained more fully in the Statement of Secretary and Comptroller General's responsibilities, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. They have appointed the Secretary and Comptroller General to discharge these responsibilities.

My responsibility is to audit the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the Audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Insurance Fund Investment Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the National Insurance Fund Investment Account's affairs as at 31 March 2017 and of the total comprehensive income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Social Security Administration Act 1992 and HM Treasury directions made thereunder.

**Opinion on other matters**

- the part of the Accountability Report to be audited has been properly prepared in accordance with HM Treasury; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

**Sir Amyas C E Morse**  
Comptroller and Auditor General  
4 July 2017

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

**National Insurance Fund Investment Account****Statement of comprehensive income**

For the year ended 31 March 2017

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Interest income	75,735	88,352
<b>Total comprehensive income</b>	<b>75,735</b>	<b>88,352</b>

The notes on pages 24 to 26 form part of these accounts.

## National Insurance Fund Investment Account

### Statement of financial position

As at 31 March 2017

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Assets</b>		
Demand deposits with the Debt Management Account and the National Loans Fund	23,956,186	24,589,621
<b>Total assets</b>	<b><u>23,956,186</u></b>	<b><u>24,589,621</u></b>
<b>Client funds</b>		
NIF funds	23,956,186	24,589,621
<b>Total client funds</b>	<b><u>23,956,186</u></b>	<b><u>24,589,621</u></b>

The notes on pages 24 to 26 form part of these accounts.

**Jo Whelan**

Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt

29 June 2017

## National Insurance Fund Investment Account

### Statement of cash flows

For the year ended 31 March 2017

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Operating activities</b>		
Interest received on deposits with the Debt Management Account and the National Loans Fund	79,134	85,747
Decrease/(increase) in demand deposits with the Debt Management Account and the National Loans Fund	630,036	(7,108,040)
<b>Net cash from/(used in) operating activities</b>	<b>709,170</b>	<b>(7,022,293)</b>
<b>Financing activities</b>		
Funds received from NIF	58,781,030	68,983,783
Funds paid to NIF	(59,490,200)	(61,961,490)
<b>Net cash (used in)/from financing activities</b>	<b>(709,170)</b>	<b>7,022,293</b>
<b>Increase in cash</b>	<b>-</b>	<b>-</b>

The notes on pages 24 to 26 form part of these accounts.

## National Insurance Fund Investment Account

### Statement of changes in client funds

For the year ended 31 March 2017

	<b>Total NIF funds £000</b>
<b>At 31 March 2015</b>	<b>17,478,976</b>
Total comprehensive income	88,352
Funds received from NIF	68,983,783
Funds paid to NIF	<u>(61,961,490)</u>
<b>At 31 March 2016</b>	<b>24,589,621</b>
Total comprehensive income	75,735
Funds received from NIF	58,781,030
Funds paid to NIF	<u>(59,490,200)</u>
<b>At 31 March 2017</b>	<b><u><u>23,956,186</u></u></b>

The notes on pages 24 to 26 form part of these accounts.

## Notes to the accounts for the year ended 31 March 2017

### 1 Accounting policies

#### (i) Basis of preparation

These accounts have been prepared in accordance with a direction made by HM Treasury under section 161(4) of the Social Security Administration Act 1992 in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate, and under the historical cost convention and on a going concern basis. In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1 January 2017. The NIFIA expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can evaluate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the NIFIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The NIFIA expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to change the reporting of financial instruments in the NIFIA.

A separate income statement, as required by the accounts direction, has not been presented as the content would be identical to the statement of comprehensive income. A statement of comprehensive income is required by IAS 1.

#### (ii) Assets

Demand deposits

Deposits with the Debt Management Account and the National Loans Fund are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.



**(iii) Income recognition**

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument.

**(iv) Administrative costs**

Administrative costs are accounted for in the DMO Annual Report and Accounts 2016-2017 and a recovery is made from HMRC.

**2 Risk**

**(i) Credit risk**

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the NIFIA.

The investments of the NIFIA comprised deposits with the Debt Management Account and the National Loans Fund. These deposits were considered to have no exposure to credit risk because they are obligations of HM Government.

There were no renegotiated assets or assets considered impaired at 31 March 2017 (31 March 2016: none).

**(ii) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the NIFIA is considered to comprise interest rate risk.

The interest returns on deposits were closely linked to the official Bank Rate.

CRND monitored interest rate movements to help inform the NIF of potential issues and events. The NIFIA was not subject to active management and thus no formal market risk parameters were in place.

**(iii) Liquidity risk**

Liquidity risk is the risk that the NIFIA will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the NIFIA were highly liquid to enable all client obligations to be met as they fell due.

**3 Related party transactions**

CRND is a separate entity within the DMO. CRND client mandates are kept distinct from other DMO business.

During the year, the NIFIA had a significant number of material transactions with the Debt Management Account, which is operated by the DMO. CRND's client mandates required the bulk of the funds to be invested in gilts or deposited with the Debt Management Account.

During the year, the NIFIA had a significant number of material transactions with the NIF due to monies advanced and withdrawn in respect of investments. During the year, the NIF withdrew £0.7 billion (net of advances) from the NIFIA (2015-2016: £7.0 billion net advance).

**4 Date of authorisation for issue**

The Secretary and Comptroller General authorised these financial statements for issue on 4 July 2017.

**ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 161 (4) OF THE SOCIAL SECURITY ADMINISTRATION ACT 1992**

1. This direction applies to the National Insurance Fund Investment Account.
2. The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 31 March 2012 and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.
3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.
4. The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in client funds. The statement of financial position shall present assets and liabilities in order of liquidity.
5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds including the National Loans Fund.
6. The report shall include:
  - a brief history of the Account, and its statutory background;
  - an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
  - a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
  - a governance statement.
7. This accounts direction shall be reproduced as an appendix to the accounts

This accounts direction supersedes all previous Directions issued by HM Treasury.

**Chris Wobschall**

Head, Assurance and Financial Reporting Policy  
Her Majesty's Treasury  
23 March 2012